The Effects of Municipal Policy Strategies on In- and Outflow in Social Assistance in The Netherlands 1999-2007

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Abstract

Do local labour market policies of municipalities matter? The scientific debates on local labour markets policies concentrates mainly on (1) the effects of active labour market policies and programmes as such, which are in general and on the long term disputable and small, (2) questions of governance, management and partnerships. In this paper we explore both dimensions. First by describing the reforms in the Netherlands in which the financial responsibility for social assistance is decentralised to 443 municipalities, second by identifying, measuring and comparing the effects of labour market strategies of municipalities on the in- and outflow of social assistance. In an empirical analysis we find effects of control, activation, employment creation and coordination on the in- en outflow of social assistance. This suggest that activities of municipalities do matter, although the effects are small.

Introduction

There is a well documented paradigm shift from welfare to workfare regimes in modern western societies over the last decades (Van Berkel & Borghi, 2007; OECD, 2003, 1999; Lødemel & Tricky, 2000). In the Netherlands this shift also has taken place. Over the last two decades there have been reforms in both the conditions of unemployment benefits and social assistance, the level of income-replacement and the administrative organisation of social insurance, social assistance and employment services. A central notion is that work precedes income. In this paper we concentrate on the administrative reforms which culminated in the SUWI-act in 2002 and the Work and Social Assistance Act in 2004. The main principles underlie the SUWI-act were privatisation of re-integration services, deregulation and decentralisation. The Netherlands by example was the first to implement a full commercial reintegration market, where private sector organisations compete for tenders to supply employment services (Tergeist & Grubb, 2006). More important, the 2004 Work and Social Assistance Act gives municipalities full responsibility for activating and reintegrating their 340.000 social assistance clients. Full responsibility includes financial responsibility and risk bearing. They receive lump-sum payments from the national government, based on socio-economic parameters that take into account the demographic and regional labour market situation. There are two financing components: for benefit payments and reintegration measures. The new model creates incentives for reducing social assistance benefits since saved money originally earmarked for benefits can be transferred to other budget lines. Municipalities now also have more discretion in choosing the type of measure for activating their beneficiaries (Tergeist & Grubb, 2006; Van Berkel, 2006).

Above all, this financial responsibility for social assistance-caseload means a stimulus for municipalities to maximise effectivity and efficiency. Therefore they have to influence the outcome of the local labour market, prevent income dependency and promote job openings. A crucial question in this respect is whether local labour market policies of municipalities matter? Can local governments indeed influence the in- and outflow of social assistance? In the literature two strands of conceptualisation of local labour market policies can be identified. The first is an instrumental way of thinking, suggesting that active labour market policy consists of different kinds of

policy instruments and programmes such as mediation, job creation, schooling and vocational training etc. This is the mainstream way of thinking, which has been subject of a body of evaluation research done so far (De Koning et al., 2007; Kluve et al., 2007, Martin & Grubb, 2001). They found that the direct, micro effects of these active labour market instruments are small and that the macro-effects for the nation as a whole are disputable. Second, local labour market policies can be viewed from a governance way of view. Local labour markets are viewed '..as a place of co-operation between local actors, and thus as a level of management, in areas such as problem identification and analysis, implementation and assessment of ALMP's (active labour market policies) and the carrying-out of local initiatives and projects (OECD, 1998: 15). In this respect, not just the instruments are of interest, but the way they are managed and coordinated, in co-operation with other agents.

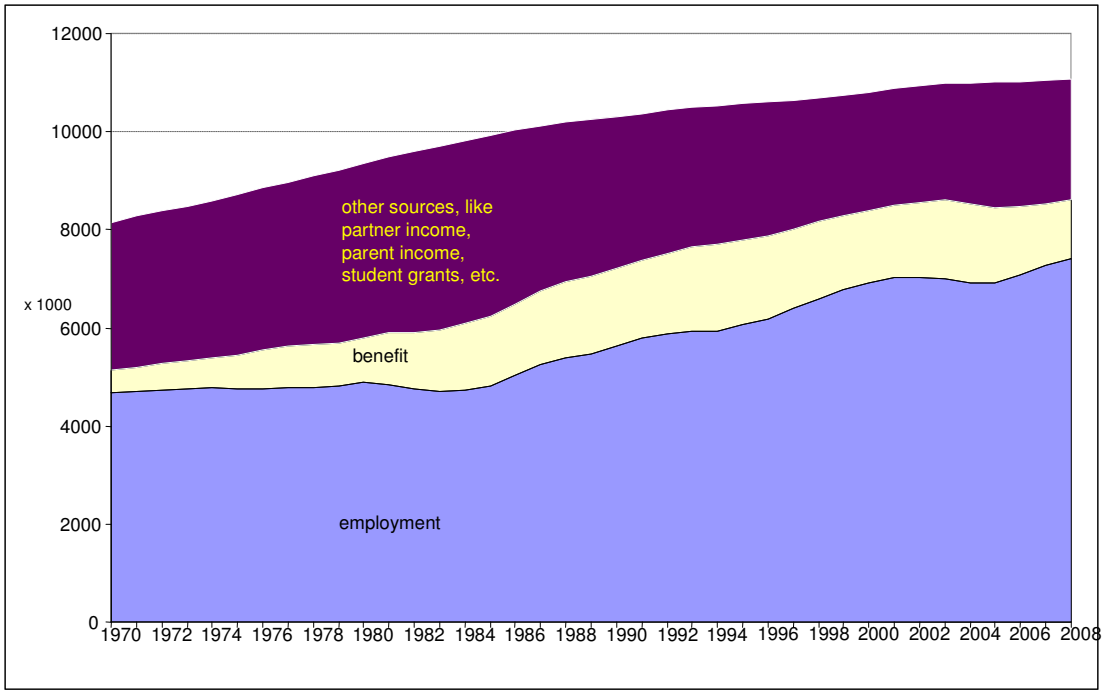
This paper focuses on the social assistance benefit system and makes an assessment of the effects that different municipal policy strategies have on the in- and outflow of the municipal number of social assistance benefit recipients for the period 1999-2007. The inflow minus outflow rate defines the net change in benefit recipients. This enables us to test the effect of institutional reforms and differences in municipal policy strategies on the developments in social assistance in The Netherlands. In section 2 a brief overview is presented of the developments of main Dutch social security arrangements of the past three decades. Section 3 provides a more in-depth description of developments in the municipal social assistance benefits. Section 4 identifies the main municipal policy strategies with respect to social assistance. Section 5 discusses the data used and methodological set-up applied in this paper. Section 6 shows the empirical results and finally section 7 concludes.

Renewing need for local labour market policy

About 25 years ago, policies on the Dutch welfare system changed course. The call for this policy reform originated from the fact that the number of benefits paid out to people under the age of 65 had more than doubled in ten years - from 0.6 million in 1974 to 1.4 million in 1984. On top of that came the growth in old-age pensions, as a

result of the aging population. The number of working people in that same period did not increase, despite the population growth. See figure 1.

Figure 1. Decomposition of population between 15-64 in The Netherlands by main source of income 1970-2008



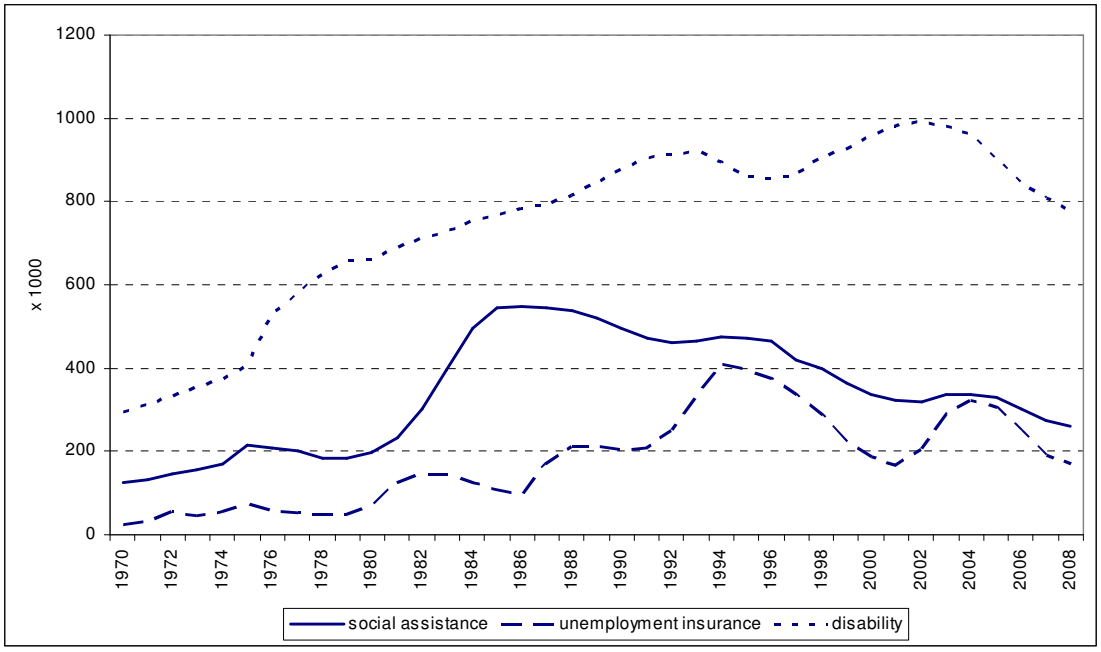
Source: Statistics Netherlands

Since then, many reforms in the main Dutch social security arrangements and employment services have been implemented. These arrangements comprise social insurance benefits for unemployment and disability and social assistance benefits. For the first two types of benefits, employers and employees pay an insurance premium from which benefits are paid in case of layoff or disability. Social assistance provides a social minimum income to those not (fully) eligible to any of the other arrangements. This type of benefit is financed by the national government. Social insurance arrangements are nowadays carried out by an independent organisation, social assistance is nowadays completely decentralised to municipalities in which recipients live. The national government distributes funds to municipalities from which they pay social assistance benefits.

Figure 2 shows the development in these three main social security arrangements in The Netherlands between 1970-2008. The largest of these three is by far that for

disability. From its outset in 1967, it has been on an increasing pace, particularly after the 1975 recession. This was caused by the possibility that partly disabled unemployed were entitled to obtain a full disability benefit, instead of a lower unemployment benefit. Even though this option was abolished in 1987, the upward trend remained until the first major reform in the early 1990's. This reform restricted eligibility and established an independent supervisory board. This immediately led to a drop in the number of disability benefit recipients. A much more extensive reform in 2002, focusing more on participation of (partly) disabled, than on mere income support for disabled, implied an even larger fall.

Figure 2. Main social security arrangements in The Netherlands: social assistance, unemployment insurance and disability, 1970-2008



Source: Statistics Netherlands

Unemployment insurance benefits form the smallest, but most cyclical, social security arrangement. Eligibility depends on job duration of employees and this criterion was also tightened in a number reforms. The number of social assistance benefits lies in between the other two. The recessions of the early 1980's caused an explosion in the number of social assistance benefits from 200 thousand in 1980 to 550 thousand in 1985. In fact, social insurance benefits are allocated to individuals, whereas a social assistance benefit pertains to the household an individual belongs to. When there are

other household members with an income, this implies a lower or no social assistance benefit.

The social assistance system has also been subject to reform in the past 15 years. Basically social assistance has evolved from a social income support system to a participation and unemployment provision. In 1996 the New Social Assistance Act for example sets a new legal framework in which the entitlements for social assistance were coupled to duties to seek work and more discretion and instruments for municipalities to activate welfare recipients and enforce behaviour. Besides eligibility and job search requirements, also the financing by the national government has been subject to reforms. Until 2001 municipalities basically could claim the expenses they made on behalf of social assistance benefits to the national authorities. In case there were more benefit recipients than anticipated, municipalities could simply claim the additional costs, in case there were less recipients they simply repaid the surplus. The rationale behind this was the premise that municipalities had no effect on the occurrence of unemployment and hence (in the end) social assistance. However, this finance scheme implied no incentive for municipalities to limit inflow or stimulate outflow of these benefit recipients. This implied an asymmetric pattern in social assistance benefits, as can be observed from figure 2, where increases were rapid and steep, whereas decreases were slow and shallow.

Reforms in the finance scheme subsequently increase the financial responsibility of municipalities. First in 2001 when municipalities could claim 75% of the costs of social assistance at the national government, while the remaining 25% was budgeted distributed to them by the national government based on criteria independent of the number of social benefit recipients. With the 2004 Work and Social Assistance Act, 100% of the costs of social assistance and reintegration measures were budgeted to municipalities, based on socio-economic parameters that take into account the demographic and regional labour market situation. Hence, when benefit costs exceed those of this budget, the municipality has to find other resources, which usually means less for other municipal measures. On the other hand, less benefit costs than budgeted, implies the full amount of this surplus is at the municipality's discretion. The rationale behind these reforms was both a shift in thoughts on social assistance from income support to participation provider, and shift in incentives to municipalities to limit

inflow and stimulate outflow of social assistance benefit recipients (Van Geuns & Van Gent, 2007). These reforms finalised an ongoing decentralisation process in de execution of the social assistance provision in The Netherlands. The drop in social assistance benefits after 1996 and 2004 is usually connected to these reforms (see figure 2) (Bosselaar et al, 2007; CPB, 2006).

The lump sum financing of benefits and reintegration measures renewed the role of local labour market policy. After all, municipalities now have an intrinsic interest in preventing inflow and promoting outflow from social assistance, alone or together with other municipalities, public or private employment agencies etc. In section 5. we identify different strategies municipalities can carry out. First we look at the spatial characteristics of social assistance.

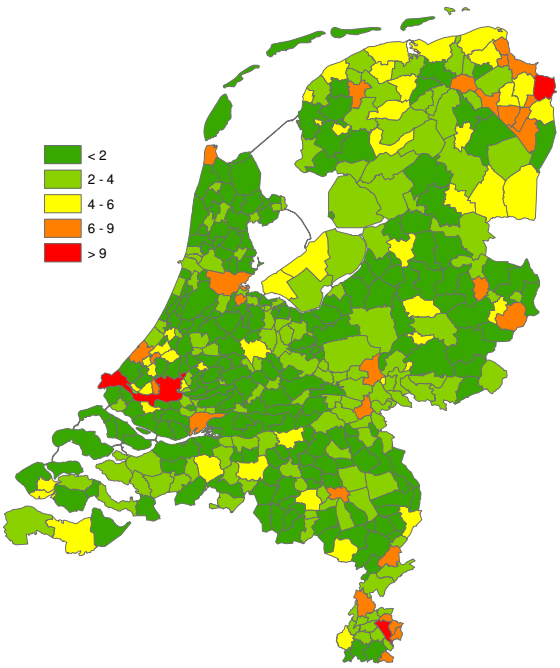
Spatial characteristics of social assistance in The Netherlands

The provision of social assistance benefits in The Netherlands is carried out by the municipalities. The number of benefits in relation to the number of households in a municipality differs greatly. Figure 3 shows the number of social assistance recipients as percentage of the number of households per municipality in 2007. This percentage is highest in the municipalities in the rural areas in the north-eastern part of The Netherlands and in the large cities in the West, like Amsterdam, Rotterdam and The Hague. Also in some southern municipalities the social assistance percentage is relatively high. In municipalities other than the larger cities, this percentage is relatively low.

The average annual percentage rate of change in the number of social assistance benefits between 1999-2007 was negative for a large majority of municipalities (figure 4). This confirms the falling trend of the number of social assistance benefits of figure 2. Only a small number of scattered municipalities in the central part of the country saw their benefits increase in the period 1999-2007. The largest fall in benefit recipients took place in municipalities at the ‘edge’ of the country, particularly at the northern, western and southern borders. The fall in municipalities at the German border was less pronounced.

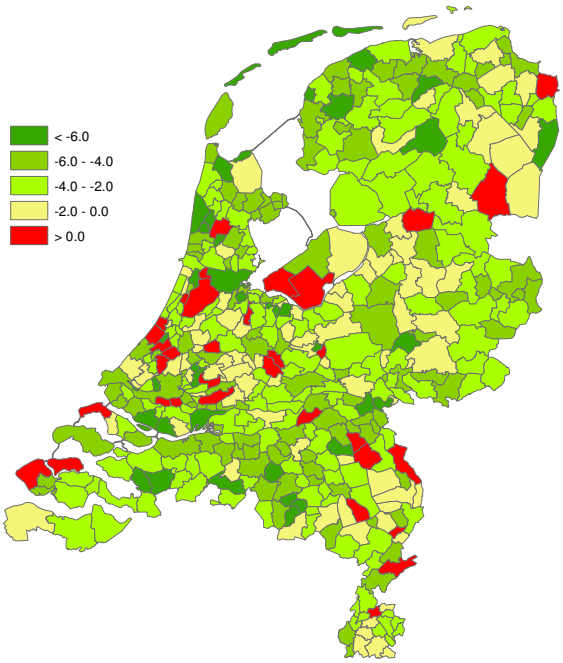
Figures 5 and 6 show the average annual inflow into and outflow out of social assistance per household over the period 1999-2007 by municipality. These figures show a clear dichotomy in these inflow and outflow rates between the North and West. Both rates are on average high in the northern part of The Netherlands, indicating higher reallocation of social assistance recipients in the North than elsewhere. Reallocation is on the other hand relatively low in the western part of The Netherlands, apart from the large cities. Figures 5 and 6 confirm that in- and outflow move in a coherent way. This is also shown in figure 7, showing the aggregate national inflow into and outflow out of social assistance in thousands of benefit recipients. It also shows that after 2004, particularly a fall in the inflow of recipients accounted for the fall in social assistance, whereas the outflow remained more or less flat after 2001.

Figure 3. Social assistance benefits as percentage of households per municipality, 2007



Source: Statistics Netherlands

Figure 4. Average annual percentage growth in social assistance benefits, 1999-2007



Source: Statistics Netherlands

Figure 5. Average annual inflow in social assistance as percentage of the number of households, 1999-2007

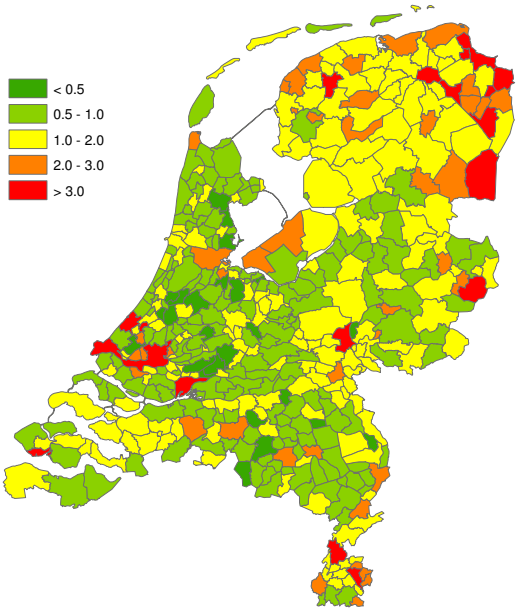
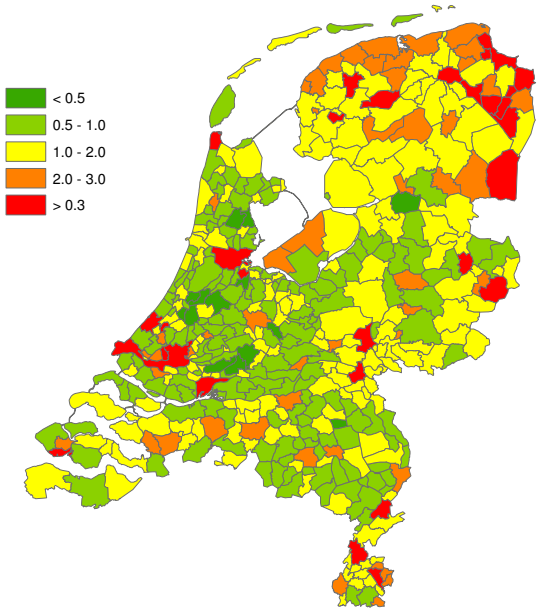
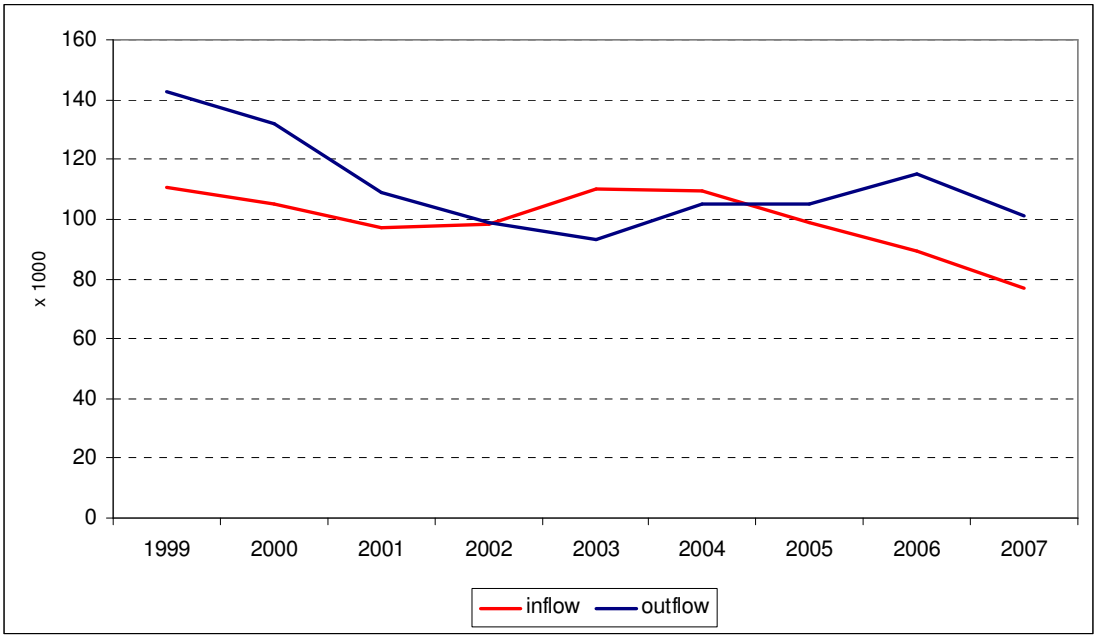


Figure 6. Average annual outflow in social assistance as percentage of the number of households, 1999-2007



Source: Statistics Netherlands

Figure 7. Inflow into and outflow out of social assistance, Netherlands, 1999-2007



Source: Statistics Netherlands

Municipal policy strategies with respect to social assistance

The basic question to be answered by local labour market policy is which problem with respect to the social assistance system needs solving. Based on economic literature five different problem areas can be distinguished.

1. Moral Hazard

Moral hazard implies unintentional and undesirable behaviour of benefit recipients, because municipalities are confronted with asymmetric information regarding these recipients, which makes it impossible to correctly judge their situation. An example is job application behaviour, because the actual job interviews are out of the municipality's reach. The problem of moral hazard is part and parcel of social assistance (and in fact any social security arrangement) and boils down to the difficulty of executing an efficient system of control over the benefit recipient. Before the 2004 reforms, this lack of control also pertained to the relation between municipalities and central authorities, because municipalities could simply pass on benefit costs to the national government.

There is a dual response of municipalities to the problem of moral hazard. First, there is a policy of threat, which boils down to demanding specific actions in return to receiving a benefit, like Work-First arrangements (Graversen & Van Ours, 2009, 2008; Rosholm & Svarer, 2008; Van Ours, 2007, Black et al., 2003). Second, and in addition to a policy of threat is a policy of strict control. This policy involved controlling benefit recipients for other sources of income, for active job search behaviour and other possible fraudulent activities.

2. Productivity shortfall

A second problem for municipalities with respect to social assistance and associated unemployment is the fact that many job searchers have too low a level of productivity to be able to earn a wage that is beyond the benefit level. This productivity shortfall can be caused by inadequate qualification, lack of work experience and the like. The main reasons for this productivity shortfall lie at the heart of active labour market

policies of a municipality. Such policies comprise schooling and training, (subsidised) trainee posts and subsidised jobs.

The problems of moral hazard and productivity shortfall basically consider the social assistance problem of municipalities from a micro-level point of view. The other problems are dealing with social assistance from a more macro/regional point of view.

3. Allocation

The problem of allocation is in fact the core of the public job exchange system. The basic idea behind this problem is the fact that labour supply and demand do not automatically meet or that market failure leads to a sub-optimal outcome (and hence unemployment or labour shortage). Policy measures that deal with this problem involve enhancing labour market transparency through better information for job searchers about vacancies and better information for employers about the potential of job searchers (De Koning, 2007; 2003).

4. Labour demand

This fourth problem regarding social assistance poses that there is insufficient demand for workers. In order to avoid benefit-dependency and unemployment municipalities should stimulate regular employment within their community. One way to do that is to make the municipality a favourable place of business, as to attract firms to settle in the municipality. Another way is to invest in municipal infrastructure and dwellings. Both the policy to stimulate places of business in the municipality and investment policies carry the danger of inefficiencies, as job searchers from other municipalities also benefit from these activities. This leads to free rider behaviour (Van Dam, 1992).

Another angle from which to look at this problem is to stimulate subsidised employment. Particularly since the early 1990's municipalities in The Netherlands have had a host of instruments to create subsidised employment. All these subsidised jobs are now an integral part of the of the 2004 Work and Income Act.

5. Co-ordination

Municipal competition and free rider behaviour related to the previous point, almost automatically imply the need for better co-operation and co-ordination (OECD, 2003).

The idea behind this problem area of social assistance is the premise that individual municipalities themselves cannot directly affect the way labour markets function, but jointly with others they (perhaps) can. The prerequisites for this are better in case municipalities working together than in isolation. In practice co-ordination manifests itself in different ways and with different actors. Co-ordination improves the local execution of social assistance (governance) and enhances the efficiency of local active labour market policy. Table 1 summarizes the different local labour market strategies from which municipalities can choose and gives their main characteristics.

Table 1. Summary of main options for municipal labour market policies

	Controlling social assistance	Activating social assistance	Allocation	Labour demand	Co-ordination
Emphasis on	Labour supply Threat	Labour supply Treatment	Supply and demand Mediation	Labour demand Employment creation	Transition and chains Co-ordination, co-operation
Primary Problem	Moral hazard	Productivity shortfall	Information shortage, lack of confidence	Insufficient labour demand	Market failure, free rider
Instruments	Analysis, Enforcement, Substitution, Work-first	Work-first, Schooling Coaching	Mediation, Education-labour market	Location policy, Employment policy, Subsidised labour	Partnerships, Integrated policy, Joint execution

Methodology and data

Now that the different policy options a municipality can make regarding social assistance are clear, we move to answering the question of the effectiveness of these strategies in bringing down the burden of social assistance. This is done by specifying and estimating models of inflow into and outflow out of social assistance. As a first step, these models only have the objective characteristics of each municipality, irrespective of those of social assistance benefit recipients, as explanatory variables.

As a second step, we investigate these models by adding indicators for each of these policy strategies and test their impact on in- and outflow.

Our models starts from a log-linear specification, implying a multiplicative relation between the variables, with the inflow (outflow) rate as dependent variable. Inflow (outflow) rate is here defined as the ratio of inflow (outflow) into (out of) social assistance in period t and the total number of social assistance benefits at the start of that period. We experimented with different denominators, but we have chosen this one for both in- and outflow for reasons of comparability and because the difference between these in- and outflow rates approximates the percentage growth of the number of benefits, as the equation below shows.

$$\Delta SAB_{i,t} = IN_{i,t} - OUT_{i,t} \quad \text{or} \quad \Delta\left(SAB_{i,t}\right)/SAB_{i,t-1} = IN_{i,t}/SAB_{i,t-1} - OUT_{i,t}/SAB_{i,t-1} \tag{1}$$

where $SAB_{i,t}$ is the number of social assistance beneficiaries in municipality i in at the start of year t, $IN_{i,t}$ is the inflow into social assistance in municipality i in year t, i.e. between t-1 and t, and likewise OUT is the outflow out of social assistance. The explanatory variables of our model comprise demographic, financial, educational and labour market variables in addition to region, size, political and other dummies to characterise each municipality. In addition, we will later also include indicators representing the various municipal policy strategies we distinguish.

In general form the specification for the inflow rate and outflow rate is

$$\log\left(\frac{Y_{SAB,i,t}}{SAB_{i,t-1}}\right) = \alpha_{0,t} + \sum_j \alpha_j \log\left(x_{j,i,t}\right) + \sum_k \beta_k \log\left(z_{k,i,t}\right) + \varepsilon_{i,t} \tag{2}$$

where Y is the relevant dependent variable Y ={inflow, outflow (to a job)} during a period t, i.e. between time t-1 and t. Each of these dependent variables is divided by the total number of social assistance benefit recipients (SAB) at the beginning of that period. Note that in order to take account of annual municipal redivisions, all variables have been rearranged to the 2007 municipality list, which amounts to 443 municipalities, so i={1,…,443}. The time period covers the years 1999 through 2007,

so t={1999,…,2007}. This implies we have a panel structure of 443 cross sections (municipalities) and 9 time periods.

Note that $\alpha_{0,t}$ represents period fixed effects in order to account for effects of time.[1] We are interested in how much of the variation in inflow and outflow rates is explained by policy strategies on top of objective variables. Cross-section fixed effects would interfere with these policy variables, which is why we abstain from these effects. We do take account of possible region or size effects to the in- and outflow rates. The explanatory variables are all captured by the variables x_j and are described in table 2. The various indicators for our policy strategies are represented by the z_k's are in table 3 and ε is the white noise error process.

Table 2. Explanatory variables: objective municipal characteristics, plus expected effects

Variables xj	Definition	Effect on:	
		inflow	outflow
Single-parent households	Number of single-parent households as share of total number of households	+	-
Low incomes	Households with low income as share of total number of households	+	-
Minorities	Number of minorities as share of total population	+	-
House value	Total value of the stock of houses as share of the total number of houses	-	+
Low educated	Number of persons between 15-64 with low education as share of population of 15-64	+	-
Unemployment insurance	Unemployment insurance benefits as share of population of 15-64	+/-	+/-
VU-ratio	Ratio of open vacancies and unemployed labour force in the COROP the municipality is in	-	+
Municipal jobs	Number of jobs as share of the population of 15-64	-	+
Address density	Ratio of the number of surrounding addresses and municipal surface (urbanisation measure)	+/-	+/
Left wing parties	Share of left wing city council seats	+/	+/

[1] Note that adding lagged dependent variables in order to take account of residual autocorrelation and the possibility of unit roots is not required in this case. This approach also evades dependency on serial correlation and unit root tests, which are notoriously unreliable incase of short time spans and numerous cross-sections.

Local parties	Share of local political party seats in city council	+/	+/
Region	Dummy for region is which municipal is located (North, East, West, South)	+/	+/
Size	Dummy of size class of municipality by number of inhabitants (> 100,000; 50,000-100,000; 20,000-50,000 and < 20,000)	+/	+/

Table 3. Explanatory variables: indicators of municipal policy strategies

Policy strategy	Indicators zi
Controlling social assistance	Number of traced fraud cases as share of total average social assistance benefits (threat) Inflow in disability arrangement for persons with no work experience (Wajong) as share of population 15-64 (clear stock of benefit recipients / substitution) Inflow in sheltered workshops (WSW) as share of population 15-64 (clear stock of benefit recipients / substitution)
Activating social assistance	Number of non-subsidised re-integration courses as share of population 15-64 (work-first kind of courses) Number of subsidised re-integration courses as share of population 15-64 (includes positing recipients at external firms or agencies)
Labour demand	Municipal per capita expenses on Economic Affairs Growth rate of municipal establishments
Co-ordination	Intensity of co-operation with external partners (dummy) Range of fields of external co-operation (dummy) Intensity of co-operation within municipality (dummy) Range of fields of internal co-operation (dummy)

Our specification approach is to first estimate model based solely on the objective explanatory variables and as a second step add the policy variables and assess the extent to which they add to explaining the variation of inflow and outflow rates and hence account for the change in the number of social assistance benefits. Most data we use are taken from data bases of Statistics Netherlands. The exact sources and definitions are in the Appendix.

Estimation results

Table 4 presents the estimation results of equation (1) for the inflow and outflow rate and the outflow rate to work, where βi =0, i.e. excluding the policy strategies. The specification approach is from general to specific regarding the objective variables. Later on the effect of these policy strategies is tested based on the simplified models from this approach. Note that some policy strategy indicators are only available for the period 2004-2007. Furthermore, the outflow rate out of social assistance to work is also available for this limited sample. The lagged outflow rate that enters the model limits the total time period on which the outflow-model is based to three years: 2005-2007. Table 4 only shows the simplified models, where the index i is omitted for convenience.

Table 4. Estimation results of equation (2); simplified models only

	Model of $\log(Y_{SAB}/SAB_{-1})_t$, where					
	Y_{SAB} is total inflow		Y_{SAB} is total outflow		Y_{SAB} is outflow to work	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Period fixed effects	Y		Y		Y	
Intercept	-2.562	(25.25)	-1.760	(-16.54)	-1.913	(-12.95)
Log low income hh.	-0.137	(-3.540)	-0.135	(-3.682)		
Log single-parent hh.	-0.325	(-9.761)	-0.018	(-2.876)	-0.079	(-3.780)
Log minorities	-0.026	(-4.064)	-0.039	(-5.910)	-0.050	(-4.250)
Log house value	-0.108	(-4.667)	-0.130	(-5.563)		
Log low educated						
Log unemployed (UI)			-0.051	(-2.975)		
Log VU-ratio	-0.072	(-4.778)	-0.066	(-4.791)	-0.156	(-5.558)
Log municipal jobs						
Log address density	-0.013	(-2.858)	-0.012	(-2.875)		
Log left wing parties						
Log local parties						
Region						
North	0.060	(3.334)	0.057	(3.505)	0.189	(6.291)
East						
West			-0.023	(-2.284)		
Size (inhabitants)						
> 100,000					0.251	(3.782)

50,000-100,000			0.194	(4.124)
20,000-50,000			0.113	(4.533)
Adjusted R2	0.231	0.310	0.553	
Municipalities (N)	443	443	443	
Time periods (T)	9	9	4	
N×T	3987	3987	1772	
Durbin-Watson (DW)	1.535	1.506	1.377	

Note that outliers (maximum six per model, i.e. 6 municipality-year combinations) were removed

Next we assess the plausibility of the estimation results of table 4. Note that the specification in logs ensures hat the estimated parameter values can be interpreted as elasticities, i.e. a 1%-point rise in xj raises the inflow or outflow rate by αj %-points. Looking first at the inflow model, table 4 shows that the demographic variables, share of single households and share of minorities, both have a negative effect on inflow rate into social assistance. This seems counterintuitive as these groups have a higher chance of being part of social assistance. However do note that we should evaluate the estimation results of the inflow and outflow models jointly instead of separately, as they together determine the change in the number social assistance recipients. Table 4 also shows that in the outflow model both the share of minorities and single-households have a negative effect, but that is the expected sign. So these demographic variables dampen both inflow and outflow and might still have a positive effect on the share of social assistance and its rate of change in a municipality. The same holds for the share of low income households and the average house value. Comparing elasticities of the inflow and outflow model shows that they differ significantly only for the share of single-parent households. Hence only single households exert a clear negative effect on the change in social assistance recipients. The overall effect of minorities on change in social assistance is on the other hand positive.

The vacancy-unemployment (VU) ratio has a strong negative effect on inflow. Indeed when there is a tight labour market in the region surrounding the municipality (i.e. a high VU-ratio), the chances of finding work are high so there is less inflow into social assistance. Finally, we find that urbanisation lowers the inflow rate, whereas

municipalities in the north of The Netherlands have a higher inflow rate. There is no effect of municipal size or political colour or the council.

As we already argued, the outflow model is more or less the spitting image of that of the inflow rate. Only the share of unemployed in unemployed insurance (UI) and municipalities in the western part of the country exert additional influence on outflow. Do note however that the outflow out of social assistance not necessarily means outflow to a (regular) job. This outflow also covers outflow due to e.g. disability, retirement, education, marriage (with a partner with an own income). Only roughly 40% of outflow out of social assistance between 2004-2007 was due to finding employment. This model of outflow to work has a shorter sample period that total outflow. However, our conclusion regarding the total outflow model also hold in this case. Only the size of the municipality now matters as well. The largest municipalities in terms of inhabitants, have the highest outflow rates to work.

Table 5 presents a summary of the contribution that each of the explanatory variables grouped together to highlight municipal aspect make to the in- and outflow models. We distinguish the role of demographics, i.e. the composition of inhabitants and households in terms of single-parent households and minorities, the wealth of a city (house value, low income households), urbanisation (address density, size classes) and regional labour market (unemployment, VU-ratio and regional dummies). Table 5 shows that the inflow into social assistance is for about 80% determined by the composition of inhabitants and households of a municipality. Another important component is city wealth, which explains about 15% of the inflow. The contribution of urbanisation and regional labour market is only limited. On the other hand, we do find a substantial contribution of regional labour markets on the outflow out of social assistance (28%). Also in this case the contribution of demographics and particularly wealth is quite high (with 27% and 43% respectively). The remaining effect of urbanisation is again small. Finally, the outflow to employment is based on a much shorter time span (2004-2007) and is therefore much less comparable to the overall inflow and outflow models, which are based on 1999-2007. Again the demographic composition has the largest contribution to outflow to work (72%), while the regional labour market contributes about 20%. Urbanisation explains the remaining 8%. The wealth effect has now vanished.

Table 5. Contribution to explained variation in inflow and outflow of social assistance

Contribution of	Inflow	Outflow	Outflow to work
- Demographics	81.2	26.7	72.2
- Wealth	14.9	42.7	
- Urbanisation	1.0	2.4	8.4
- Regional labour market	3.0	28.2	19.5

Note: calculation based on the mean absolute value times the coefficients of table 4 (see also Broersma and Oosterhaven, 2009 – tables 5 and 6)

As a second step the models of table 4 are augmented with indicators of municipal policy strategies and re-estimated in order to assess the effect of these different strategies on inflow and outflow rates on top of the earlier explanatory (objective) variables. Table 6 shows the estimation results when instruments for each of the policy strategies of table 1 are added to the models of table 4. In that way table 5 shows the extent to which different policy strategies have an effect on inflow in and outflow out of social assistance of at least at 10%. The number of instruments chosen is limited to those in table 5.

Regarding a social security strategy with an emphasis on control, table 6 shows that the threat argument (tracing more fraud cases) has no significant effect on inflow or outflow. Only the other instrument in this strategy of cleansing the stock of benefit recipients to assess the extent to which recipients might fall in some other social security arrangement has an effect on outflow to employment. A rise of the inflow into the Wajong (disability arrangement for persons with no working experience) raises the outflow of social assistance to work. More persons moving into the Wajong instead of social assistance means that the better equipped for work remain so the outflow to work may rise. There is no significant effect of the WSW (sheltered work for disabled).

As far as an activating policy strategy is concerned, table 6 shows that this only has a significant negative effect on the inflow rate and no effect on outflow. Hence, courses and subsidised jobs are more of a deterrent to enter social assistance than indicators of the control strategy. The labour demand strategy, in terms of municipal Economic

Affairs expenditures, lowers the inflow into social assistance. What does have an effect on the outflow, both general and to a job, is co-operation both external, with other partners, and internal, between municipal departments. They provide arguments in favour of a better functioning of the local labour market as a result of external and internal co-operation. Therefore potential outflow is stimulated.

Table 6. Elasticities of instruments of policy strategies on in- and outflow

Policy strategy	Instruments	Inflow model	Outflow model	Outflow to work model
Controlling social assistance	Share of fraud cases			
	Inflow Wajong			
	Inflow WSW			-0.007
Activating social assistance	Share of courses	-0021		
	Share of subsidized jobs	-0.005		
Labour demand	Economics affairs expenses (per cap)	-0.020		0.019
	Growth rate establishments			
Co-ordination	Scope of external cooperation		0.019	0.033
	Range of internal cooperation		0.130	0.283

When no elasticity is reported, the effect of the policy variable was not insignificantly different from zero at 10%.

Concluding remarks

The results of the previous paragraph show that local labour market policies matter for the inflow and outflow and thus the rate of change of municipal social assistance benefits. Different policy strategies have an effect on both inflow into social assistance and outflow out of social assistance. These outcomes point towards an a labour market policy focused on co-ordination and investment in courses en subsidized jobs is the best option for a municipality to lower the burden of social assistance.

Nevertheless these effects are small. In terms of the number of additional measures to be taken in order to reduce inflow with 1 person or stimulate outflow with one person, a lot of efforts have to be made. For one person to less enter social security, an arbitrary municipality needs some 50 additional courses, or 50 additional subsidised jobs, or an additional 8 euro per capita spending on municipal Economic Affairs. At the same time an additional 9 euro per head raises outflow to work with 1 person. This implies that expenses on municipal Economic Affairs with say 9 euro per head, will give a drop in social assistance of two persons. When the number of WSW-entitlements within an average municipality rises with 11 persons, this will lower outflow to work with one person. The effects of scope and range of co-operation can not be assessed in the same manner, but they have a positive effect on outflow (to work), but no effect on inflow.

This corroborates the limited effect of municipal policies in lowering unemployment that has been found in other, noticeably evaluation, studies as in De Koning et al. (2007); Kluve et al. (2007), Martin & Grubb (2001). Nevertheless these effects are significant, so they do matter.

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Data appendix – Model variables

Name	Short description	Source
Inflow	Inflow into social assitance as share of social asistance (at start of period)	Statistics Netherlands
outflow	Outlow out of social assistance as share of social assistance (at start of period)	Statistics Netherlands
Outflow to work	Ratio of outflow to work and social assistance (art start of period)	Statistics Netherlands
Single-parent households	Share of sigle parent households in total number of households	Statistics Netherlands
Minorities	Share of minorities of non-Western descent in total population	Statistics Netherlands
Low incomes	Share of households with income at the lowest 4 deciles of the natoinal income distribution	Statistics Netherlands
House value	Total house value as share of total housing stock	Statistics Netherlands
Low educated	Share population between 15-64 sith a low education (at most ISCED 3)	Statistics Netherlands
Unemployment insurance	Share of persons between 15-64 with a UI benefit	Statistics Netherlands
VU-ratio	Ratio of vacancies and unemploy labour force in the corop-region (NUTS3) the municipality iis in	Statistics Netherlands
Employment function	Ratio of jobs and the population between 15-64	Statistics Netherlands
Address density	Number of addresses per km2	Statistics Netherlands
Left wing parties	Share of (national) left wing parties in municipal council (D66, PvdA, GL, SP)	University of Groningen COELO
Local parties	Share of local parties in municipal council	University of Groningen COELO
Fraud cases	Share of fraud cases in average number of persons on social asistance	Divosa and Statistics Netherlands
Inflow Wajong	Ratio of inflow in Wajong arrangement and population between 15-64 (at start of period)	Statistics Netherlands
Inflow WSW	Ratio of inflow in WSW and population between 15-64 (at start of period)	Ministry of Social Affairs and Statistics Netherlands
Re-integration courses	Ratio of re-intergration courses and population between 15-64	Statistics Netherlands
Subsidised re-integration	Ratio of subsidised re-integration courses and population between 15-64	Statistics Netherlands

courses		
Ranged of external co-operation	Number of external parties a municipality is co-operating with in temrs oflocal labour markets	Divosa
Ranged of internal co-operation	Number of internal departments a municipality is co-operating with in temrs oflocal labour markets	Divosa